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Distributions are allowed only at retirement or permanent separation from employment. The CalPERS Board of Administration has authorization under the Government Code of the State of California to establish plan provisions. At June 30, 2011, there were 625 active and inactive participants in the program.

Other Funds Administered by CalPERS

OASI

The Old Age & Survivors' Insurance Revolving Fund (OASI) was established to consolidate the collection and payment for California public agencies of employee and employer contributions under the provisions of the federal Social Security regulations.

Federal legislation was enacted on October 21, 1986, which required direct remittance of Social Security contributions by individual public agencies and eliminates the intermediary collection and remittance of such contributions by individual public agencies and by State

Social Security agencies, such as the OASI. As such, effective January 1, 1987, the OASI stopped receiving contributions from public agencies. Subsequently, CalPERS, the Social Security Administration, and participating local agencies reached agreement on the proper amount of contributions, payments, and refunds. Since then the OASI fund has been utilized to reimburse the PERF for OASI contract management and related services, as provided in Government Code section 22601. The residual balances are now being reported in the PERF for accounting and financial reporting purposes.

HCF

The Public Employees' Health Care Fund (HCF) was established under the Public Employees' Medical and Hospital Care Act (PEMHCA) as of July 1, 1988. The self-funded plans, PERS Choice, PERSCare, and PERS Select (the Plans) are risk pools available to all entities that contract for health insurance coverage under PEMHCA. Having all members in a single risk pool spreads catastrophic claims over a large base and minimizes administrative expenses. The Plans retain all the risk of loss of allowable health claims. Fund members are not subject to a supplemental assessment in the event of deficiencies. Premium rates are set by the Board based on a trend analysis of the historic cost, utilization, demographics, and administrative expenses of the HCF to provide for the claims incurred and the actuarially determined required level of reserves.

The Plans rely on operating cash flows and investment income to fund health benefit payments. During the 2010-11 fiscal year, the Board increased member premiums to mitigate the impact of increasing costs associated with enrollment growth, increases in provider pricing, and increased benefit utilization. Management believes that the current sources of funding will be adequate to provide for benefits of the Plans.

Public agencies participating in the Plans are required to make monthly premium payments based on rates established annually by CalPERS. Employer contributions are determined by the public agency through benefit negotiations, subject to minimum contribution levels established through PEMHCA. Public agency employee members pay the difference between the premium rate and the employers' contribution. During June 2011, the HCF received a \$43.3 million premium payment from the State of

California for July 2011 coverage. The prepaid premiums are included as other liability in the Statement of Net Assets – Proprietary Funds. The HCF received Early Retiree Reinsurance Program (ERRP) revenues through the federal government’s Affordable Care Act. The purpose of ERRP is to generate cost savings so that employers can maintain health care coverage for early retirees age 55 and older who are not yet eligible for Medicare. CalPERS has achieved this purpose by utilizing the ERRP revenues to reduce health care insurance premiums. The ERRP revenues are reported as Federal Government Reimbursements in the Statement of Revenues, Expenses and Changes in Net Assets.

CRF

The Public Employees’ Contingency Reserve Fund (CRF) was established in 1962, with the passage of PEMHCA, to fund administrative costs related to the PEMHCA program, and as a contingency reserve for such items as increases in future rates or in future benefits. PEMHCA was expanded to include local public agency employees on a contract basis in 1967. The CRF is reimbursed by the State and contracting public agencies for costs incurred for administering the program.

Activity in the CRF is reported in two separate fund types. Administrative fees collected and related costs are accounted for in the CRF enterprise fund. Public agency health payments and remittances to contracted health care providers are reported in the CRF Agency Fund.

PEMHCA establishes eligibility rules for the following:

- Retirees and beneficiaries receiving health care benefits,
- Terminated plan members entitled to but not yet receiving benefits, and
- Active plan members.

Administrative costs include direct costs of the program and a proportionate share of indirect costs allocated to the CRF enterprise fund by the PERF. The administrative fee is determined as a percentage of insurance premiums paid by the employers. The administrative fee for the year ended June 30, 2011, was 0.37 percent. Administrative rates are reviewed annually and are adjusted, if needed, to cover budgeted administrative costs.

Public agency employers whose employees do not elect PERS Choice, PERSCare, or PERS Select submit the provider-determined, Board-approved premiums to the CRF

Agency Fund, which in turn submits the premiums to the respective health care provider.

At June 30, 2011, 1,190 entities participated in health insurance coverage under PEMHCA.

LTCF

The Public Employees’ Long-Term Care Fund (LTCF) began providing self-insured long-term care plans in 1995. The LTCF operates by providing long-term care coverage to enrolled members under the Public Employees’ Long-Term Care Act (PERL, Chapter 15). The fund contracts with a third party service provider to administer the program. Long-term care coverage is offered to all public employees (active or retired), their spouses, parents, parents-in-law, and siblings. The LTCF is a member-paid program with no contributions from employers. Premium rates are recommended to the Board by an independent, third-party program actuary and are set by the Board. Prospective enrollees apply directly to the program for long-term care coverage.

As of June 30, 2011, there are 154,637 enrollees, of which 5,098 are receiving benefits. CalPERS closed the LTCF to new enrollment effective August 19, 2008, due in large part to the financial condition of the fund.

The unrestricted net assets in the LTCF increased from negative \$118.5 million at June 30, 2010 to positive \$671.0 million at June 30, 2011, the increase is attributable to favorable investment returns since the June 30, 2010 valuation and a revised projected investment return of 6.25 percent for projection years one through 10, and 7.60 percent for projection years 11 and beyond. This change in the investment rate of return assumption from a level 6.38 percent reflects an update in the expected returns consistent with modifications made to the LTCF asset allocations and resulted in a reduction in the LTCF estimated liability. The actuarial valuation results are very sensitive to the underlying assumptions utilized, including the investment rate of return and morbidity. The valuation is based on assumed morbidity more favorable than actual program experience. If actual experience continues to emerge as it has to date, valuation results would deteriorate (e.g., a projected margin would decrease) as the credibility attributable to that experience increases. However, as the Program continues to mature, the difference between actual program experience and assumed morbidity is decreasing,

so the resulting potential deterioration of results is lessening as compared to previous valuations. LTCF management is continuing to review the impact of the recently implemented premium increases and the revised investment discount rate assumption.

RBF

The Replacement Benefit Fund (RBF) was established as a custodial fund by Chapter 938 of the 1995 Statutes and initially funded in 1998 to provide benefits to members of the PERF whose retirement benefit exceeds Internal Revenue Code Section 415(b) limits. IRC Section 415(b) imposes a dollar limit on the annual retirement benefits an individual may receive from a qualified defined benefit pension plan.

The RBF is funded on a “pay-as-you-go” basis. That is, money collected from an employer during any calendar year must be paid to the retiree during that same year. Employer contributions must be in amounts “equivalent to” the benefits not paid as a result of the limitations of IRC Section 415(b). CalPERS calculates the member’s retirement allowance based on the member’s choice of retirement option. CalPERS also is responsible for calculating the applicable dollar limit under IRC Section 415(b), and setting the employer rates. At June 30, 2011, there were 325 retirees receiving replacement benefits.

3. CASH & CASH EQUIVALENTS

Cash and cash equivalents of approximately \$1.0 billion at June 30, 2011 represent amounts held in the CalPERS general operating accounts with the State Treasury. The underlying investments are not individually identifiable by fund, as CalPERS monies are pooled with the monies of other State agencies and invested by the State Treasurer’s Office.

4. INVESTMENTS

For the year ended June 30, 2011, State Street Bank & Trust Company was the master custodian for significantly all public market securities; however, certain securities are held by alternative investment managers. Real estate deeds of trust are held in the name of Limited Liability Corporations and Partnerships. The investments held by the LRF, JRF II, SPOFF, SCPP, CERBTf, IRC 457, HCF, LTCF and a portion of the PERF investments are co-invested and held in

internally managed unitized investment pools. The investments are held in domestic and international equity pools, and debt securities pools. The PERF, LRF, JRF, JRF II, CERBTf, HCF, and LTCF have a different asset allocation based on Board-approved policy and their unitized investment pools are separate from the SPOFF, SCPP and IRC 457. Except for the SPOFF, the investments of the SCPP, and IRC 457 are participant directed within the investment options listed in Note 2.

In accordance with GASB Statement No. 40, CalPERS discloses investments of all CalPERS managed funds that are subject to certain risks: custodial credit risk, concentration of credit risk, interest rate risk, credit risk and foreign currency risk.

Securities Lending

The State Constitution and CalPERS Board policies permit CalPERS to use investments of the PERF to enter into securities lending transactions, collateralized loans of securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. CalPERS has contracted with eSecLending LLC (eSec), State Street Bank & Trust (SSB), and Goldman Sacs Agency Lending as third-party securities lending agents to loan domestic and international equity and debt securities. Additionally, CalPERS contracts with eSecLending as an administrative agent for CalPERS principal borrowers. CalPERS receives both cash and non-cash (i.e. securities) collateral.

Domestic and international securities are collateralized for cash at 102 percent and 105 percent, respectively, of the loaned securities market value. Management believes CalPERS has minimized credit risk exposure to borrowers by requiring the borrower to provide collateralization greater than 100 percent of the market value of the securities loaned. Securities borrowed are required to be over collateralized by 2 percent (domestic) and 5 percent (international) and all borrowed securities are priced end of day. Based on a borrower’s aggregate end of day market value, a wire is sent or delivered to maintain the proper overcollateralization level. On June 30, 2011, the fair value of the securities on loan was approximately \$19.8 billion.

The CalPERS Fixed Income unit manages the securities lending activity on behalf of PERF assets in individual funds and in unitized equity and debt security pools. The PERF is

the majority owner of the unitized pools and bears the risk of loss in the re-invested collateral for the securities loaned from the unitized pools; as such the securities lending collateral and obligation are being reported in the PERF. At the discretion of management, certain lending income is redistributed back to all the pool owners in which it was earned. In fiscal year ending 2011, approximately \$38 million of lending income was redistributed to the pool owners.

All securities lending activities, whether individual PERF funds or unitized pools, are subject to the constraints set forth in CalPERS Securities Lending Policy.

CalPERS policy is to invest the cash collateral in short-term, high-credit quality fixed income securities. Currently, SSB, eSec, and CalPERS manage the cash collateral. As of June 30, 2011, the cash collateral invested by SSB, eSec, CalPERS High Quality Libor, CalPERS Short Duration, and CalPERS Internal Collateral, had weighted average maturities of 31, 312, 367, 587, 479, days, respectively, and durations of 71, 0, 32, 0, and 36 days, respectively.

Structured Investment Vehicles (SIVs) were purchased as Medium Term Notes between April 2006 and March 2007 (with April 2009 and March 2010 maturity dates) and at the time of purchase met all Cash Collateral Re-investment Policy guidelines. In 2007 and 2008, both SIVs went into enforcement, defaulted and eventually re-structured. The re-structuring involved CalPERS receiving a pro-rata in kind interest of the underlying collateral of the SIVs. The average maturity on the underlying collateral is substantially longer than the original Medium Term Notes and is considered long-term.

On the following pages, investment risk schedules disclose CalPERS investments subject to certain types of risk, pursuant to GASB Statement 40. Each schedule discloses investments of all funds managed by CalPERS subject to each type of risk.

Custodial Credit Risk

Custodial Credit Risk is the risk that in the event a depository institution or counterparty fails, the System would not be able to recover the value of its deposits, investments, or collateral securities.

As of June 30, 2011 all of the System's investments, other than posted collateral for Futures and Over The Counter (OTC) instruments, are held in the System's name

and/or are not exposed to custodial credit risk. There are no general policies relating to the custodial credit risk.

Concentration of Credit Risk

CalPERS does not have investments in any one issuer which represent five percent or more of total net assets for the defined benefit plans in accordance with GASB No. 25.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. This risk is managed within the portfolios using the effective duration or option-adjusted methodology. The System's investment policies require the option-adjusted duration of the total fixed income portfolio to stay within 10 percent of the option-adjusted duration of its benchmark. All individual portfolios are required to maintain a specified level of risk relative to their benchmark. Risk exposures are monitored daily.

The System invests in securities with contractual cash flows, such as asset backed securities, collateralized mortgage obligations and commercial mortgage backed securities, including securities backed by residential and commercial mortgage loans. The value, liquidity and related income of these securities are sensitive to changes in economic conditions, including real estate value, delinquencies or defaults, or both, and may be adversely affected by shifts in the market's perception of the issuers and changes in interest rates.

Credit Risk

Credit risk is defined as the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The System's investment policies establish general as well as specific risk measures for the fixed income portfolio. From the most general perspective, 80 percent of the total fixed income portfolio must be invested in investment-grade securities.

Investment-grade securities are those fixed income securities with a Moody's rating of AAA to BAA or a Standard & Poor's rating of AAA to BBB. Each portfolio is required to maintain a specified risk level. Portfolio exposures are monitored daily.

Foreign Currency Risk

Foreign currency risk is defined as any deposits or investments that are denominated in foreign currencies, which bear a potential risk of loss arising from changes in currency exchange rates. The System's asset allocation and investment policies allow for active and passive investments in international securities. The System's policy for total global equity specifies investment in international equities be based on market capitalization. For total fixed income, 10 percent is targeted for investment in international securities. Real estate and alternative investments do not have a target allocation for international investments. The System uses a currency overlay program to reduce risk by hedging approximately 15 percent of the total Plans exposure to international currencies. Currency exposures are monitored daily.

CalPERS – Debt Security Investments Subject to Interest Rate Risk (Dollars in Thousands)

Debt Security Type	Portfolio Weighted Average Effective Duration (Years)	Fair Value June 30, 2011	Percent of Debt Securities
U.S. Treasuries & Agencies	7.57	\$25,235,748	44.0 %
Mortgages	4.45	11,258,573	19.6
Corporate	8.86	11,030,330	19.2
Asset Backed	7.17	550,201	1.0
International	8.65	5,339,734	9.3
Municipal	8.98	33,793	0.1
No Effective Duration:			
Asset Backed	N/A	3,141,928	5.4
Commercial Paper	N/A	39,147	0.1
Commingled	N/A	585,615	1.0
Corporate	N/A	199,407	0.4
Municipal	N/A	3,550	0.0
Mortgages	N/A	58,651	0.1
Private Placement	N/A	8,422	0.0
International	N/A	14,063	0.0
SWAPS	N/A	(124,694)	(0.2)
TOTAL ¹		\$57,374,468	100.0 %

Note:

¹ This table represents the fair value of investments in the fixed income portfolios. The debt securities investments line item in the statement of fiduciary net assets and the statement of proprietary net assets are reported at fair value for non-unitized investments and at net asset value for investments in the unitized pools which includes accruals in the unitized portfolios.

CalPERS invested in the State Treasury pool and State Street Bank Global Advisors' (SSgA) short-term investment fund. These investments are included as part of the short-term investment line item on the financial statements. At June 30, 2011, the pooled money investment account with the State Treasury totaled approximately \$1.8 billion and the short-term investment fund with SSgA totaled approximately \$6.9 billion. The weighted average maturity is 237 days for the State Treasury pool and 33 days for the SSgA short-term investment fund.

CalPERS – Securities Lending Collateral Subject to Interest Rate Risk (Dollars in Thousands)

Security Type	Portfolio Weighted Average Effective Duration (Years)	Fair Value June 30, 2011	Percent of Securities Lending Collateral
Asset Backed Securities	1.35	\$3,311,529	29.2 %
Structured Investment Vehicles	41.08	314,197	2.8
Floating Rate CMBS	0.66	651,914	5.7
No Effective Duration:			
Money Market Fund ¹	N/A	5,400,445	47.6
Cash Securities	N/A	1,662,179	14.7
TOTAL ²		\$11,340,264	100.0 %

Notes:

- 1 Of the Money Market Fund total, \$98,371 is invested in a SEC registered 2(a)-7 Money Market Fund with a weighted average maturity of 31 days.
- 2 This figure does not include \$9,080,000 in repurchase agreements which represent equity securities and are not subject to the GASB 40 disclosure requirements. The fair value of securities lending collateral as reported in the statement of net assets totals \$20,420,264.

CalPERS – Securities Lending Collateral Subject to Credit Risk (Dollars in Thousands)

Moody's Quality Rating	Fair Value	Fair Value as a Percent of Debt Security Investments
AAA	\$9,471,713	83.6 %
AA-1	18,869	0.2
AA-2	1,278	0.0
A-1	4,283	0.0
A-2	2,669	0.0
BAA-2	2,311	0.0
BAA-3	10,994	0.1
NR ^{1,2}	1,828,147	16.1
TOTAL ³	\$11,340,264	100.0 %

Notes:

- 1 NR represents those securities that are not rated.
- 2 This figure includes the \$98,371 invested in a SEC registered 2(a)-7 Money Market Fund.
- 3 This figure does not include \$9,080,000 in repurchase agreements which represent equity securities and are not subject to the GASB 40 disclosure requirements. The fair value of securities lending collateral as reported in the statement of net assets totals \$20,420,264.

CalPERS – Debt Security Investments Subject to Credit Risk (Dollars in Thousands)

Moody's Quality Rating	Fair Value	Fair Value as a Percent of Debt Security Investments
AAA	\$17,971,722	31.3 %
AA-1	115,358	0.2
AA-2	1,884,908	3.3
AA-3	490,447	0.9
A-1	367,934	0.6
A-2	1,305,376	2.3
A-3	1,266,989	2.2
BAA-1	1,932,409	3.4
BAA-2	2,414,897	4.2
BAA-3	1,537,690	2.7
BA-1	535,687	0.9
BA-2	135,927	0.2
BA-3	291,281	0.5
B-1	216,902	0.4
B-2	188,688	0.3
B-3	238,130	0.4
CAA	75,782	0.1
CA	51,361	0.1
C	11,788	0.0
CAA-1	249,759	0.4
CAA-3	69,662	0.1
NA ¹	23,573,097	41.2
NR ²	2,448,674	4.3
TOTAL ³	\$57,374,468	100.0 %

Notes:

- 1 NA represents those securities that are not applicable to the GASB No. 40 disclosure requirements.
- 2 NR represents those securities that are not rated.
- 3 This table represents the fair value of investments in the fixed income portfolios. The debt securities investments line item in the statement of fiduciary net assets and the statement of proprietary net assets are reported at fair value for non-unitized investments and at net asset value for investments in the unitized pools which includes accruals in the unitized portfolios.

CalPERS invested in the State Treasury pool and State Street Bank Global Advisors' (SSgA) short-term investment fund. These investments are included as part of the short-term investment line item on the financial statements. At June 30, 2011, the pool money investment account with the State Treasury totaled approximately \$1.8 billion and the short-term investment fund with SSgA totaled

approximately \$6.9 billion. These investment pools are not rated.

Derivatives

CalPERS holds investments in swaps, options, futures, rights and warrants and enters into forward foreign currency exchange. The fair value of options, futures, rights and warrants are determined based upon quoted market prices. The fair value of derivative investments that are not exchange traded, such as swaps, is determined by an external pricing service using various proprietary methods, based upon the type of derivative instrument. Futures contracts are marked-to-market at the end of each trading day, and the settlement of gains or losses occur on the following business day through variation margins. The fair value of international currency forwards represents the unrealized gain or loss on the related contracts, which is calculated as the difference between the specified contract exchange rate and the exchange rate at the end of the reporting period. Forward foreign currency exchange

contracts are used primarily to hedge against changes in exchange rates related to foreign securities.

Due to the level of risk associated with certain derivative investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term, and such changes could affect the amounts reported in the financial statements.

CalPERS could be exposed to risk if the counterparties to the contracts are unable to meet the terms of the contracts.

CalPERS investment managers seek to control this risk through counterparty credit evaluations and approvals, counterparty credit limits, posting collateral and exposure monitoring procedures.

CalPERS – Derivative Instruments Summary (Dollars in Thousands)

Investment	Net Appreciation/ (Depreciation) in Fair Value		Fair Value at June 30, 2011		
Derivatives (by type)	Amount	Classification	Amount	Notional (Dollars)	Notional (Units)
Credit Default Swaps Bought	(\$3,304)	Debt Securities	\$6,218	\$44,150	—
Credit Default Swaps Written	2,307	Debt Securities	1,184	77,150	—
Equity Options Bought	(8,427)	Equity Securities	1,960	—	1,462,500
Equity Options Written	7,286	Equity Securities	(2,354)	—	(120,000)
Fixed Income Futures Long	910	Investment Sales/Purchases	—	195,643	—
Fixed Income Futures Short	(8,336)	Investment Sales/Purchases	—	(785,991)	—
Fixed Income Options Written	11,029	Equity Securities	(4,568)	(496,183)	—
Foreign Currency Options Bought	(3,238)	Equity Securities	1,488	275,954	—
Foreign Currency Options Written	1,210	Equity Securities	(51)	(5,219)	—
Futures Options Written	1,195	Equity Securities	—	—	—
Foreign Exchange Forwards	(1,186,921)	Investment Sales/Purchases	(128,672)	28,140,569	—
Index Futures Long	1,453,941	Investment Sales/Purchases	—	31,587	—
Index Futures Short	30	Investment Sales/Purchases	—	—	—
Interest Rate Swaps	276	Debt Securities	—	—	—
Pay Fixed Interest Rate Swaps	(5,683)	Debt Securities	(1,745)	118,228	—
Receive Fixed Interest Rate Swaps	2,739	Debt Securities	769	149,011	—
Rights	(4,367)	Equity Securities	4,503	—	24,367,267
Total Return Bond Swaps	(127,087)	Debt Securities	(131,120)	2,623,499	—
Warrants	(1,723)	Equity Securities	2,942	—	570,318
TOTAL	\$131,837		(\$249,446)	\$30,368,398	26,280,085

CalPERS – Derivative Instruments Subject To Interest Rate Risk (Dollars in Thousands)

Investment Maturities

Investment Type	Investment Maturities (in years)				
	Fair Value	Under-1	1-5	6-10	10+
Credit Default Swaps Bought	\$6,218	(\$194)	\$217	(\$38)	\$6,233
Credit Default Swaps Written	1,184	18	838	328	—
Fixed Income Options Written	(4,568)	(4,055)	(513)	—	—
Pay Fixed Interest Rate Swaps	(1,745)	—	815	(1,429)	(1,131)
Receive Fixed Interest Rate Swaps	769	—	(184)	(667)	1,620
Total Return Bond Swaps	(131,120)	(97,236)	(33,884)	—	—
Total	(\$129,262)	(\$101,467)	(\$32,711)	(\$1,806)	\$6,722

Derivative Instruments Highly Sensitive to Interest Rate Changes

Investment Type	Reference Rate	Fair Value	Notional
Interest Rate Swaps	Receive Variable 3-month LIBOR, Pay Fixed 3.829%	(\$743)	\$12,000
Interest Rate Swaps	Receive Variable 3-month LIBOR, Pay Fixed 4.25%	(222)	6,800
Interest Rate Swaps	Receive Variable 3-month LIBOR, Pay Fixed 4.25%	(680)	20,800
Interest Rate Swaps	Receive Variable 3-month LIBOR, Pay Fixed 3.50%	(686)	31,200
Interest Rate Swaps	Receive Variable 3-month LIBOR, Pay Fixed 4.25%	(229)	7,000
Interest Rate Swaps	Receive Variable 3-month LIBOR, Pay Fixed 3.36%	815	40,428
Interest Rate Swaps	Receive Fixed 5.80%, Pay Variable 6-month CDOR	219	8,807
Interest Rate Swaps	Receive Fixed 2.00%, Pay Variable 6-month LIBOR	(58)	19,812
Interest Rate Swaps	Receive Fixed 6.96%, Pay Variable 1-month TIIE	(667)	38,484
Interest Rate Swaps	Receive Fixed 6.59%, Pay Variable 1-month TIIE	8	776
Interest Rate Swaps	Receive Fixed 6.75%, Pay Variable 1-month TIIE	23	1,885
Interest Rate Swaps	Receive Fixed 1.50%, Pay Variable 6-month LIBOR	1,459	61,912
Interest Rate Swaps	Receive Fixed 4.385%, Pay Variable 3-month LIBOR	(215)	17,336
Subtotal — Interest Rate Swaps		(\$976)	\$267,240
Total Return Bond Swaps	Receive Fixed 1.00%, Pay Fixed 1.00%	(\$8,546)	\$160,973
Total Return Bond Swaps	Receive Fixed 1.00%, Pay Fixed 1.00%	(8,442)	159,017
Total Return Bond Swaps	Receive Fixed 1.00%, Pay Fixed 1.00%	(8,393)	158,100
Total Return Bond Swaps	Receive Fixed 1.00%, Pay Fixed 1.00%	(8,503)	160,159
Total Return Bond Swaps	Receive Fixed 1.00%, Pay Fixed 1.00%	(8,326)	156,840
Total Return Bond Swaps	Receive Fixed 1.00%, Pay Fixed 1.00%	(8,310)	156,521
Total Return Bond Swaps	Receive Fixed 1.00%, Pay Fixed 1.00%	(8,379)	157,824
Total Return Bond Swaps	Receive Fixed 1.00%, Pay Fixed 1.00%	(8,356)	157,405
Total Return Bond Swaps	Receive Fixed 1.00%, Pay Fixed 1.00%	(8,358)	156,692
Total Return Bond Swaps	Receive Fixed 1.00%, Pay Fixed 1.00%	(3,180)	59,896
Total Return Bond Swaps	Receive Fixed 1.00%, Pay Fixed 1.00%	(4,997)	132,046
Total Return Bond Swaps	Receive Fixed 1.00%, Pay Fixed 1.00%	(15,351)	405,658
Total Return Bond Swaps	Receive Fixed 1.00%, Pay Fixed 1.00%	(7,308)	137,665
Total Return Bond Swaps	Receive Fixed 1.00%, Pay Fixed 1.00%	(9,462)	178,228
Total Return Bond Swaps	Receive Fixed 1.00%, Pay Fixed 1.00%	(6,618)	124,659
Total Return Bond Swaps	Receive Fixed 1.00%, Pay Fixed 1.00%	(8,591)	161,816
Subtotal — Total Return Bond Swaps		(\$131,120)	\$2,623,499
TOTAL		(\$132,096)	\$2,890,739

CalPERS – Derivative Instruments Subject To Credit Risk (Dollars in Thousands)

Counterparty	Percentage of Net Exposure	S&P Ratings	Fitch Ratings	Moody's Ratings
Societe Generale	21.53%	A+	A+	Aa2
JP Morgan	21.45%	AA-	AA-	Aa1
Credit Suisse International	14.72%	A+	AA-	Aa1
UBS AG	12.47%	A+	A+	Aa3
Barclays	11.32%	AA-	AA-	Aa3
Goldman Sachs	11.27%	A	A+	A1
Royal Bank of Scotland	3.64%	A+	AA-	Aa3
Morgan Stanley	1.82%	A	A	A2
BNP Paribas	1.27%	AA	AA-	Aa2
Deutsche Bank	0.51%	A+	AA-	Aa3
	100.00%			

CalPERS — International Investment Securities | At Fair Value at June 30, 2011 (U.S. Dollars in Thousands)

Investment Securities of all CalPERS managed funds, including derivative instruments that are subject to foreign currency risk.

Currency	Equity	Alternative Investments	Fixed Income	Real Estate	Cash	Forward Contracts	Total
Australian Dollar	\$3,364,043	\$77,897	\$158,980	\$372,034	\$11,557	(\$2,461)	\$3,982,050
Brazilian Real	1,764,792	—	—	470,889	20,363	—	2,256,044
Canadian Dollar	4,427,592	220,908	234,631	350,086	32,520	(5,044)	5,260,693
Chilean Peso	186,423	—	1,067	—	558	(3)	188,045
Colombian Peso	66,965	—	—	—	936	—	67,901
Czech Koruna	87,628	—	—	—	486	23	88,137
Danish Krone	598,507	—	14,468	—	1,171	(975)	613,171
Egyptian Pound	92,755	—	—	—	205	—	92,960
Euro Currency	15,255,005	3,702,132	2,237,526	965,862	531,567	(77,961)	22,614,131
Guatemala Quetzal	—	—	—	44,988	—	—	44,988
Hong Kong Dollar	3,371,854	—	—	1,055,508	6,309	614	4,434,285
Hungarian Forint	92,754	—	—	—	87	4	92,845
Indian Rupee	1,101,737	—	11	393,237	5,818	—	1,500,803
Indonesian Rupiah	443,047	—	—	—	1,603	—	444,650
Israeli Shekel	312,534	—	—	1,912	1,982	(567)	315,861
Japanese Yen	9,057,969	110,069	1,019,905	459,185	115,855	(44,368)	10,718,615
Malaysian Ringgit	437,345	—	—	—	795	—	438,140
Mexican Peso	395,103	—	63,957	220,928	2,602	480	683,070
Moroccan Dirham	10,268	—	—	—	202	—	10,470
New Taiwan Dollar	1,406,037	—	—	—	9,499	(26)	1,415,510
New Turkish Lira	191,493	—	—	—	160	—	191,653
New Zealand Dollar	65,408	—	63,196	1,714	1,656	(1,220)	130,754
Norwegian Krone	569,524	—	—	2,159	3,098	(1,183)	573,598
Pakistan Rupee	25,895	—	—	—	81	—	25,976
Peruvian Noveau Sol	14,734	—	—	—	41	—	14,775
Philippine Peso	63,257	—	—	—	58	—	63,315
Polish Zloty	225,084	—	58,833	—	462	79	284,458
Pound Sterling	8,487,243	3,534	847,952	147,362	51,249	17,033	9,554,373
Singapore Dollar	767,957	—	8,610	76,764	2,271	(245)	855,357
South African Rand	1,251,890	—	21,131	—	672	1,094	1,274,787
South Korean Won	2,571,902	—	—	—	3,855	—	2,575,757
Sri Lanka Rupee	—	—	—	—	3	—	3
Swedish Krona	1,367,808	—	8,121	226,486	5,267	(1,154)	1,606,528
Swiss Franc	3,224,420	—	—	20,894	8,108	(12,792)	3,240,630
Thailand Baht	329,230	—	—	—	1,077	—	330,307
Turkish Lira	194,767	—	—	—	55	—	194,822
UAE Dirham	16,263	—	—	—	180	—	16,443
TOTAL	\$61,839,233	\$4,114,540	\$4,738,388	\$4,810,008	\$822,408	(\$128,672)	\$76,195,905

The fair value of derivative instruments are included in the amounts reported under equities, fixed income and as forward contracts.

Real Estate

Real estate investments are classified as investments in accordance with GASB Statement 25. Certain real estate investments are leveraged whereby partnerships have been established to purchase properties through a combination of contributions from CalPERS and other investors and through the acquisition of debt. At June 30, 2011, real estate equities of approximately \$31.0 billion are reported at estimated fair value. Of this amount, \$19.1 billion is equity and \$8.6 billion is long-term mortgages payable, and \$3.3 billion is other short-term liabilities. The LTCF invests in real estate investment trusts (REITS) and as such no debt is attached to the real estate investments and, therefore, not included the schedule below.

Required repayment of real estate debt, which includes both recourse and non-recourse debt, is as follows:

Required Repayment of Real Estate Debt (Dollars in Thousands)

Debt Matures Year Ending June 30	Amount
2012	\$1,550,390
2013	1,694,413
2014	1,103,512
2015	904,127
2016	838,314
2017-2021	1,828,805
2022-2026	328,891
2027-2031	97,184
2032-2035	213,179
TOTAL	<u>\$8,558,815</u>

Other Income

CalPERS participates in Directed Brokerage-Commission Recapture arrangements and in fiscal year 2010-11, the PERF earned additional income of \$0.6 million from the program. The Directed Brokerage Program had a balance of \$1.6 million at July 1, 2010. For fiscal year 2010-11, brokerage commissions that were rebated totaled \$0.7 million. Expenses in the amount of \$1.2 million were incurred to purchase analytical tools, advisory and other research materials.

The Directed Brokerage Program had a balance of approximately \$1.1 million at June 30, 2011. These amounts are recorded in the accompanying financial statements as of June 30, 2011.

5. CONTRIBUTIONS & RESERVES

Employer Contributions Actuarially Determined & Contributions Made

Employer contributions are calculated as a percentage of employer payrolls. OPEB plan employer contributions are voluntarily determined by the employer and there are no long-term contracts for contributions. The payroll for employees covered by the PERF, JRF, and JRF II in 2010-11 was approximately \$43.6 billion, \$80.0 million, and \$224.1 million, respectively.

Actuarial Valuations

Actuarial valuations are used to determine the cost of pension benefits payable to the members of CalPERS who participate in the PERF, the LRF, the JRF, and the JRF II as well as the related required contribution rates. The actuarial valuations include a number of significant assumptions, including the actuarial cost method used, the asset valuation method, the rate of return on the investment portfolio, rate of inflation, projected salary increases, post-retirement benefit increases, and the life expectancy of members and beneficiaries.

The actuarial cost method used for the PERF and JRF II is the Individual Entry Age Normal cost method. The cost method used for funding and for calculating the Annual Required Contribution for the LRF is the Aggregate Actuarial Cost method. For purposes of determining the JRF Annual Required Contribution, CalPERS changed from the aggregate funding method to the Individual Entry Age Normal funding method. The result of this change is an increase in the fiscal year 2011-12 ARC of approximately \$900,000 or less than 0.1 percent. The CERBTf allows the use of either the Entry Age Normal or the Projected Unit Credit cost method for its participating plans. All these methods are projected benefit cost methods that take into account those benefits that are expected to be earned in the future, as well as those already accrued.

To amortize any unfunded actuarial liabilities, the PERF and the JRF II use the level percentage of payroll method. Employers participating in the CERBTf have the option of either using a level dollar or level percentage of payroll method to amortize their unfunded actuarial liabilities. Since LRF uses the Aggregate Actuarial Cost method for

calculating the Annual Required Contribution, the unfunded liability is not separately identified nor amortized.

The 2010 actuarial valuations were used to set the actuarially determined contribution requirements for different fiscal years. For the PERF, the 2010 actuarial valuations were used to set the actuarially determined contribution requirements for the 2011-12 fiscal year for the State and School employers, while the 2010 valuations were used to set the actuarially determined contribution requirements for the 2012-13 fiscal year for public agencies. For the JRF, JRF II and LRF, the 2010 actuarial valuations were used to set the actuarially determined contribution requirements for the 2011-12 fiscal year. The CERBTf uses demographic assumptions similar to the pension plans with the addition of the Health Cost Trend Rate assumption.

In December 2009, the CalPERS Board adopted changes to the asset smoothing method as well as changes to the Board policy on the amortization of gains and losses in order to phase in over a three-year period the impact of the negative 24.0 percent investment return experienced by CalPERS in fiscal year 2008-09. The following changes were adopted for all plans:

- The corridor limits for the actuarial value of assets were increased from 80-120 percent of market value to 60-140 percent of market value on June 30, 2009.
- The corridor limits for the actuarial value of asset were reduced to 70-130 percent of market value on June 30, 2010.
- The corridor limits will return to 80-120 percent of market value for the actuarial value of assets on June 30, 2011 and thereafter.
- All gains and losses during the fiscal years 2008-09, 2009-10 and 2010-11 will be isolated and amortized over fixed and declining 30-year periods (as opposed to the current rolling 30-year amortization).

In addition, in February 2010, the CalPERS Board adopted a resolution requiring additional contributions for any plan or pool in which cash flows would hamper adequate funding progress by preventing the expected funded status on a market value of assets basis of the plan to either:

- Increase by at least 15 percent by June 30, 2042 for state and schools, and 2043 for public agencies, or
- Reach a level of 75 percent funded by June 30, 2042 for state and schools, and 2043 for public agencies.

Restrictions on Net Assets Available for Benefits

Included in the Net Assets Held in Trust for Pension Benefits is a restricted reserve that, by law, is retained in the PERF and LRF as a reserve against deficiencies in interest earned, potential losses under investments, court-mandated costs, and actuarial losses resulting from terminations, mergers, or dissolutions of contracting agencies. This reserve cannot exceed 0.2 percent of total assets of the PERF, excluding the OASI, and the LRF, and totaled approximately \$487.1 million and \$248.5 thousand as of June 30, 2011, for the PERF and LRF, respectively.

PERF

Actuarial valuations of the PERF are performed annually. The last valuation was performed as of June 30, 2010, for the State, schools, and public agencies.

The total 2010-11 net retirement contributions for the PERF amounted to approximately \$11.1 billion, of which \$7.5 billion (the actuarially determined annual required contribution) came from 1,574 employers and approximately \$3.6 billion came from nearly 791,000 members. The contributions to the PERF were for the retirement program, the 1959 Survivor Program, and the Group Term Life Insurance Program. For the retirement program, the average employer normal cost is 10.820 percent of covered payroll, and amortization of the unfunded liabilities is 6.322 percent of covered payroll. These figures are averages for all employers. The actual figures vary by each employer's plan.

LRF

The current contribution requirements of the LRF are based on actuarially determined rates promulgated as part of legislation passed in 1977.

Actuarial valuations of the LRF are required to be carried out at least every two years. The Board of Administration utilizes these actuarial valuations to make recommendations to the State for financing the Fund. For the fiscal year ending June 30, 2011, there was no statutory contribution required based on the June 30, 2009 valuation.

JRF

Contributions made by the State of California to the JRF are made pursuant to State statute and are not actuarially determined; however, an actuarial valuation of the JRF assets and liabilities is performed every year and is used by CalPERS to make recommendations for financing the

JRF. The California law which states that on and after January 1, 2004, the JRF shall be funded and actuarially sound was amended in conjunction with the adoption of the Judges' Retirement System II Law, which, among other provisions, eliminated the requirement that the JRF be funded and actuarially sound. Recommendations to achieve the necessary level of contributions have been submitted by the CalPERS Board to the Legislature.

As of June 30, 2011, funding was provided from the following sources to meet benefit payment requirements:

- **Member Contributions** — 8 percent of applicable member compensation;
- **Employer Contributions** — 8 percent of applicable member compensation;
- **Filing Fees** — Varying amounts depending on fee rate and number of filings;
- **Investments** — Current yield on short-term investments;
- **State of California "Balancing Contributions"** — An amount required by the Judges' Retirement Law, at least equal to the estimated benefits payable during the ensuing fiscal year less the sum of 1) the estimated member contributions during the ensuing fiscal year and; 2) net assets available for benefits at the beginning of the fiscal year.

Under the "pay-as-you-go" basis, short-term investments, as well as contributions received during the year and a State General Fund augmentation, are used to provide funding for benefit payments. This funding method is generally more expensive in the long term, as the fund does not have investment returns generated by a funded plan. Without the State General Fund augmentation, the JRF will not be able to pay the accumulated benefit payments due in 2012. Management and legal counsel believe the State of California is legally required to provide these required contributions to fund the benefits.

For the year ended June 30, 2011, the actual contributions made by the State to the JRF were approximately \$167.3 million, which is significantly less than the actuarially determined annual required contribution of approximately \$1.3 billion.

Because current contributions are used to make benefit payments, the fund does not retain the accumulated contributions of active members. The cumulative contributions for all currently active members since inception were approximately \$117.0 million at June 30, 2011, which exceeded Net Assets Held in Trust

for Pension Benefits by approximately \$62.8 million at June 30, 2011.

JRF II

Actuarial valuations for the JRF II are required to be carried out annually. The legislated State contribution rate will be adjusted periodically as part of the annual Budget Act in order to maintain or restore the actuarial soundness of the fund. The last actuarial valuation was performed as of June 30, 2010.

For the year ending June 30, 2011, the statutory employer contribution rate was 24.041 percent based on the June 30, 2009 actuarial valuation. Therefore, for the year ended June 30, 2011, the contributions made by the State to the fund were approximately \$53.9 million, which is more than the actuarially determined required contributions of approximately \$50.9 million.

CERBTf

The actuarial valuations for the CERBTf are conducted by outside actuarial firms engaged by participating employers that must base their valuations on the CalPERS OPEB Assumption Model. This model requires the use of actuarial methods and assumptions similar to those employed for the PERF, except in addition to Entry Age Normal, the use of Projected Unit Credit actuarial cost method is allowed. An additional assumption used for the CERBTf is the health care cost trend rate. The actuarial valuation estimates the cost of future health and other post-employment benefit insurance premiums for current and retired participating employees. Employers with less than 100 plan members may use the alternative measurement method as permitted by GASB Statement No. 57.

The total 2010-11 actual net OPEB employer contributions from 306 participating employers was \$758.3 million, compared to the actuarially determined annual required contribution of 11.0 percent of covered payroll, or \$1.1 billion. This amount includes the \$283.8 million in contributions made to the CERBTf, plus an additional \$474.4 million in retiree health care premiums paid by employers directly to providers, implicit rate subsidies, and other GASB 45 compliant costs recognized by employers as contributions toward the ARC. CERBTf actuarial valuations are based upon plan benefits in effect at the time of the valuations, either defined by the employer or

by the Public Employees Hospital Care Act (PEMHCA), for employers participating in that program. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of future employer and employee cost sharing.

6. COMMITMENTS

At June 30, 2011, CalPERS total capital commitments was \$89.2 billion. Of this amount, \$23.1 billion remained unfunded and is not recorded on the CalPERS Statement of Fiduciary Net Assets. The following table depicts the total commitments and unfunded commitments, respectively, by asset class.

Total Commitments and Unfunded Commitments by Asset Class (Dollars in Thousands)

Asset Class	Total Commitments	Unfunded Commitments
Equity (Corporate Governance)	\$4,772,906	\$486,431
Inflation Linked	3,224,400	357,943
Real Estate	25,102,240	6,948,435
Alternative Investments	56,063,366	15,333,591
TOTAL	\$89,162,912	\$23,126,400

7. CONTINGENCIES

CalPERS has entered into agreements with a number of issuers of non-taxable debt to provide payment of principal and interest in the event of non-payment. CalPERS is paid an annual fee over the term of the agreement for each transaction. The majority of the transactions are supported by collateral, letters of credit from banks or bond insurers for repayment. As of June 30, 2011, the credit enhancement program had contingent liabilities of approximately \$1.5 billion and net fee income of approximately \$9.5 million.

CalPERS is a defendant in litigation involving individual pension and health benefit payments and participant eligibility issues arising from its normal activities. In the event of an adverse decision, any payments awarded by the courts would be recovered by CalPERS through prospective adjustments to the employer contribution rate. Based upon consultation with legal counsel, management believes there will be no material

adverse effect on the basic financial statements as a result of the ultimate outcome of these matters.

8. HEALTH CARE FUND

Estimated Liabilities

The Public Employees' Health Care Fund (HCF) establishes claim liabilities based on estimates of the ultimate costs of claims (including future claim adjustment expenses) that have been reported but not settled and of claims that have been "incurred but not reported" (IBNR). The estimated claims liability was calculated by Blue Cross, the HCF's third-party administrator, at June 30, 2011, using a variety of actuarial and statistical techniques and adjusted for actual experience to produce current estimates that reflect recent settlements, claim frequency, and other economic and social factors. Adjustments to claims liabilities are charged or credited to expense in the periods in which they are made. The estimated claims liability of \$236.3 million is carried at its face amount, and no interest discount is assumed. The IBNR portion represents an estimate for claims that have been incurred prior to June 30, 2011, but have not been reported to the HCF.

Anticipated Investment Income and Reinsurance

Anticipated investment income is not included in the annual premium requirement for HCF members. Also, the HCF has not entered into any reinsurance or excess insurance agreements.

The following schedule represents changes in the aggregate estimated claims liabilities of the HCF for the years ended June 30, 2011 and 2010.

Changes in the Aggregate Estimated Claims Liabilities of the HCF for PERSCare, PERS Choice and PERS Select

(Dollars in Thousands)

For the Year Ending June 30	2011	2010
TOTAL ESTIMATED CLAIMS AT BEGINNING OF FISCAL YEAR	\$192,195	\$216,584
INCURRED CLAIMS & CLAIM ADJUSTMENT EXPENSES		
Provision for Insured Events of Current Fiscal Year	\$1,792,599	\$1,654,214
Decrease in Provision for Insured Events of Prior Years	(70,414)	(99,640)
Total Incurred Claims & Claim Adjustment Expenses	\$1,722,185	\$1,554,574
PAYMENTS		
Claims & Claim Adjustment Expenses Attributable to Insured Events of Current Fiscal Year	\$1,550,306	\$1,444,509
Claims & Claim Adjustment Expenses Attributable to Insured Events of Prior Fiscal Year	127,752	134,454
Total Payments	\$1,678,058	\$1,578,963
TOTAL ESTIMATED CLAIMS AT END OF FISCAL YEAR	\$236,322	\$192,195

9. LONG-TERM CARE FUND

The Public Employees' Long-Term Care Fund (LTCF) estimate of the funding level to provide for the payment of future claim benefits is predicated upon participation levels that are expected to be achieved by the program. The premiums from the LTCF are recognized during the period covered.

The LTCF establishes the liability for future policy benefits based on the present value of future benefits and expenses less the present value of future premiums. The liability for future policy benefits was calculated by the fund's actuary, using a variety of actuarial and statistical techniques as part of their actuarial review as of June 30, 2011. The actuarial valuations are very sensitive to the underlying actuarial assumptions, including a discount rate of 6.25 percent for years 1 through 10, and 7.60 percent for years 11 and beyond, morbidity, disability continuance, mortality, voluntary termination, and claims expense. The total estimated liability for future policy benefits as of June 30, 2011, was \$2.6 billion. Of that amount, \$181.1 million is expected to be paid in the 2011-12 fiscal year and is included in current liabilities.

10. PERF, LRF, JRF, JRF II, AND CERBTf FUNDED STATUS

The following represents the funded status of the CalPERS pension trust funds and the post-employment health care fund as of June 30, 2010. These actuarial valuations involve estimates of the value and probability assumptions of events far into the future, and these amounts and assumptions are subject to continual revision as actual results are compared

to past expectations. Calculations are based on the benefits provided under the terms of the plan in effect and the pattern of cost sharing between employees and the employer. The projection of benefits does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost sharing. These actuarial calculations reflect long-term perspectives and use techniques that are designed to reduce short-term volatility.

Funded Status¹ of the PERF, LRF, JRF, JRF II, and CERBTf (Dollars in Millions)

Fund	Actuarial Valuation Date	Actuarial Value of Assets (1)	Actuarial Accrued Liability (AAL) - Entry Age (2)	Unfunded AAL (UAAL) - (Funding Excess) (3) = (2) - (1)	Funded Ratio (1) ÷ (2)	Annual Covered Payroll (4)	UAAL as a % of Covered Payroll (3) ÷ (4)
PERF	6/30/10	\$257,070	\$308,343	\$51,273	83.4 %	\$44,984	114.0 %
LRF	6/30/10	127	112	(15)	113.4	2	(750.0)
JRF	6/30/10	64	3,429	3,365	1.9	86	3,912.8
JRF II	6/30/10	461	521	60	88.5	213	28.2
CERBTf	6/30/10 ²	1,287	14,288	13,001	9.0	10,435	124.6

Notes:

- 1 The Schedule of Funding Progress immediately following the notes to the financial statements presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing relative to the actuarial accrued liability for benefits over time. Market value of asset information is included later in the Required Supplemental Schedules.
- 2 During 2010-2011 several large employers contracted with the CERBTf. This data represents the actuarial data from 309 valuations adjusted to an aligned date of June 30, 2010 and includes the actual asset value as of that date, to be compliant

with GASB 57. CalPERS projected the data as of June 30, 2010 in the table above by rolling forward or backward the actuarial data contained in OPEB valuations and Alternative Measurement Method (AMM) reports prepared by participating employers as of varying valuation dates. The alignment was achieved by applying methods allowed under Actuarial Standards of Practice and under Generally Accepted Accounting Principles.

11. SUBSEQUENT EVENTS

In August 2011, Standard & Poor's lowered its long-term credit rating from AAA to AA+ on debt of the U.S. government, U.S. government-sponsored enterprises, and public debt issues that have credit enhancement guarantees by U.S. government sponsored enterprises. These credit downgrades relate to the credit risk associated with CalPERS' investments in U.S. Treasury and U.S. Agency debt securities.

Subsequent to the June 30 fiscal year end, the financial markets continued to experience high volatility with an outcome that negatively affected domestic and international public equity portfolios. As of November 8, 2011, the Public Employees' Retirement Fund (PERF) domestic and international equity portfolios had declined by an estimated \$4.9 billion in fair value to \$111.8 billion based on net of fees reporting by the custodian bank.

Actuarial Information | Assumptions and Methods Used in the Most Recent Actuarial Valuations in Development of the Funded Status

	PERF	LRF	JRF	JRF II	CERBTF
Funded Status Valuation Date	June 30, 2010	June 30, 2010	June 30, 2010	June 30, 2010	June 30, 2010 ⁵
Adoption Date	Various	Various	Various	Various	—
Actuarial Cost Method	Individual Entry Age Normal Cost	Individual Entry Age Normal Cost ⁴	Individual Entry Age Normal Cost	Individual Entry Age Normal Cost	Entry Age Normal or Projected Unit Credit
Amortization Method	Level Percentage of Payroll	None ²	None	Level Percentage of Payroll	Varies ⁵
Amortization Approach	Closed (Open for Gains and Losses)	None ²	None	Closed	Varies ⁵
Remaining Amortization Period	Not Available ³	None ²	None	Average of 23 years	Varies ⁵
Asset Valuation Method	Smoothing of Market Value, Temporary Increase in 20% Market Value Corridor to 30% in 6/30/2010 valuation.	Smoothing of Market Value	Market Value	Smoothing of Market Value	Varies ⁵
ACTUARIAL ASSUMPTIONS					
Net Investment Rate of Return	7.75%	6.00%	4.50%	7.25%	7.75%
Projected Salary Increases ¹	Varies, based on duration of service	3.25%	3.25%	3.25%	3.25%
Post Retirement Benefit Increase	For State and Schools, 2% or 3% compounded annually For Public Agencies, 2% to 5% compounded annually, depending on the agency plan provisions	3.00%	3.25%	3.00%	—
HEALTH CARE COST TREND RATES:					
Select Period	—	—	—	—	0 – 10 Years
Initial Rate	—	—	—	—	4.00 – 12.00%
Ultimate Rate	—	—	—	—	4.00 – 6.00%

Notes:

- 1 Includes inflation at 3.0 percent for all funds.
- 2 The Aggregate Cost Method does not identify or separately amortize unfunded actuarial liabilities.
- 3 Calculations not yet completed for June 30, 2010 valuations.
- 4 For funding purposes and the calculation of annual required contributions, the Aggregate Cost Method is used.

- 5 The CERBTF schedule of funded status was based on 309 individual actuarial valuations and Alternative Measurement Method (AMM) reports aligned to June 30, 2010, using both closed and open amortization methods and with most valuations using the current market value of assets and a few smoothing the market value of assets. For the significant majority of the valuations, the unfunded liability is amortized over 30 years, and the remainder use periods range between one year and 29 years.

Actuarial Information | Assumptions and Methods Used in the Most Recent Actuarial Valuations in Development of the Annual Required Contribution (ARC)

	PERF	LRF	JRF	JRF II	CERBTf
	June 30, 2009: State and Schools June 30, 2008: Public Agencies	June 30, 2009	June 30, 2009	June 30, 2009	June 30, 2010 ³
ARC Valuation Date					
Adoption Date	Various	Various	Various	Various	—
Actuarial Cost Method	Individual Entry Age Normal Cost	Aggregate Cost	Aggregate Cost	Individual Entry Age Normal	Entry Age Normal or Projected Unit Credit
Amortization Method	Level Percentage of Payroll	None ²	None ²	Level Percentage of Increasing Payroll	Varies ³
Amortization Approach	Closed (Open for Gains and Losses)	None ²	None ²	Closed	Varies ³
Remaining Amortization Period	25 Years for Schools, average of 20 years for Public Agencies, and 21 to 26 years for the State plans	None ²	None ²	Average of 26 years	Varies ³
Asset Valuation Method	Smoothing of Market Value, 20% Corridor for Public Agencies, 40% Corridor for State & School Plans	Smoothing of Market Value, 20% Corridor	Market Value	Smoothing of Market Value, 20% Corridor	Varies ³
ACTUARIAL ASSUMPTIONS					
Net Investment Rate of Return	7.75%	7.00%	4.50%	7.25%	7.75%
Projected Salary Increases ¹	Varies, based on duration of service	3.25%	3.25%	3.25%	3.25%
Post Retirement Benefit Increase	For State and Schools, 2% or 3% compounded annually For Public Agencies, 2% to 5% compounded annually, depending on the agency plan provisions	3.00%	3.25%	3.00%	—
HEALTH CARE COST TREND RATES:					
Select Period	—	—	—	—	0 – 10 Years
Initial Rate	—	—	—	—	4.00 – 12.00%
Ultimate Rate	—	—	—	—	4.00 – 6.00%

Notes:

- Includes inflation at 3.0 percent for all funds.
- The Aggregate Cost Method does not identify or separately amortize unfunded actuarial liabilities.
- The CERBTf schedule of funded status was based on 309 individual actuarial valuations and Alternative Measurement Method (AMM) reports aligned to June 30, 2010, using both closed and open amortization methods and with most valuations using the current market value of assets and a few smoothing the market value of assets. For the significant

majority of the valuations, the unfunded liability is amortized over 30 years, and the remainder use periods range between one year and 29 years.

There were no changes in assumptions and methods in the actuarial valuation reports to determine the fiscal year 2010-11 annual required contribution for the CERBTf plan.

FINANCIAL SECTION
Required Supplemental Schedules

Header Page for Section C